This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS HARARE 000347

SIPDIS

STATE FOR AF/S AND AF/EX
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR 2037 DIEMOND
PASS USTR ROSA WHITAKER
TREASURY FOR ED BARBER AND C WILKINSON
STATE PASS USAID FOR MARJORIE COPSON

¶E. O. 12958: N/A
TAGS: ECON EINV ETRD ZI
SUBJECT: GOZ Announces Export Support Mechanism

Ref: Harare 343

¶1. Summary: As previewed in reftel, the GOZ has announced a long-awaited support mechanism for exporters, which amounts to a targeted devaluation on export revenue. This is welcome news for exporters, but it is unclear if forex-starved importers will be able to access U.S. dollars at the new 800:1 rate. End Summary.

¶2. Under the previous mechanism, exporters were required to exchange 50 percent of revenue at the official rate of 55:1 and had to petition the Reserve Bank for access to the other 50 percent in hard currency. (The market rate is currently around 1400:1.) In many cases, the GOZ withheld over 95 percent of revenue. Now exporters will exchange the first 50 percent at 800:1, receiving about 15-times as many Zimdollars. They will still have to petition for the second 50 percent within a 60-day period. If the Reserve Bank grants them access to the second 50 percent, they will earn an effective blend rate of around 1100:1.

¶3. After the GOZ announced its 2003 budget in November, most exporters halted production or exchanged forex earnings exclusively on the black market. The new policy may induce some of them to restart operations and return to legality. The Confederation of Zimbabwe Industries and a host of other organizations have lobbied the GOZ for export relief. The new 800:1 rate replaces all previous rates, in particular those for tobacco and gold exports.

Comment

¶4. In yesterday's announcement, the GOZ took a small step toward acknowledging macroeconomic reality and moving beyond its unsupported and preposterous official exchange rate of 55:1. However, unresolved issues remain. Most importantly, the GOZ has not disclosed whether it will sell U.S. dollars to importers at 800:1. Given the present array of price controls, many are unable to import goods at market cost. Furthermore, exporters will want to see whether the GOZ withholds their second 50 percent of export revenue (deposited in the Reserve Bank foreign currency accounts), which could effectively deflate the blend rate from 1100 to 400:1. Post will continue to track the impact of the devaluation and other measures noted in reftel.

Sullivan